

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 106

May 15, 1958

INFORMATION RETURNS: SAVINGS AND LOAN ASSOCIATIONS

Syllabus:

Amounts paid on withdrawable shares of savings and loan associations come within the requirements of Regulation 18801-18804(b) and amounts of \$2,000.00 or more must be reported on an information return.

Advice is requested whether amounts paid on withdrawable shares of savings and loan associations come within the requirements of Reg. 18801-18804(a) or 18801-18804(b).

An investment in withdrawable shares of savings and loan associations bear some of the attributes of both a share of stock and an evidence of indebtedness. The return of the former is a dividend and accordingly not deductible to the payor, while a return of the latter is deductible as "interest". Despite the "hybrid" nature of these investments, the Federal and State law provide that amounts returned on these investments are deductible to the payor corporation. See Section 24403 of the Bank and Corporation Tax Law. In allowing a deduction of these amounts the law concedes that they are not a true dividend as contemplated in the sections defining dividends. It follows that if such amounts are not dividends for purposes of computing net income, they are also not dividends for informational return purposes. Therefore, they come within the provisions of Regulations 18801-18804(b) which establishes the informational return requirements on payments other than dividends in amounts of \$2,000.00 or more.